

**LINCOLN COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2017**

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October 19, 2017

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Lincoln County School District
Stanford, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10 and 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2017, on our consideration of Lincoln County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

LINCOLN COUNTY PUBLIC SCHOOL DISTRICT – STANFORD, KY

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

YEAR ENDED JUNE 30, 2017

As management of the Lincoln County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The June 30, 2017 cash balance for the District was \$5.89 million, as compared with the beginning cash balance of \$9.67 million. The ending cash balance consists of General Fund of \$3,497,715, Capital Outlay of \$824,587, Building (FSPK) Fund of \$76,355, Construction Fund of \$272,125, Debt Service of \$865,840, Food Service of \$283,874, Community Education of \$553 and District Activity of \$71,683.
- Government-wide net position decreased \$309,791 during the year.
- The General Fund had \$30.1 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$31.9 million in General Fund expenditures with an additional \$4.76 million transferred out to other funds. Of the transfers, \$3.85 million was for construction costs of the Stanford Early Childhood Center. The construction costs were funded with insurance proceeds from the prior school year.
- General Fund revenue decreased \$160,614 from last fiscal year due to a decrease in SEEK revenue. General Fund expenses decreased by \$1,242,177 largely due to the costs in fiscal year 2016 related to recovery from a fire at Central Office on August 6, 2014.
- The financial statements reflect revenues of \$7,143,678 from state on-behalf payments of District employees retirement contributions, health insurance, administration fees and technology with a like amount of expenses recorded.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements, statement of net position and statement of activities are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Fiduciary funds for these financial statements are school activity funds. The only proprietary funds are our community education and food service operations. All other activities of the district are included in the governmental funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$13.5 million as of June 30, 2017.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2016 and June 30, 2017

A comparison of June 30, 2016 and June 30, 2017 government wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Current and Other Assets	\$ 10,890,590	\$ 6,807,033	\$ 194,629	\$ 366,386	\$ 11,085,219	\$ 7,173,419
Capital Assets	40,524,643	43,012,231	422,240	361,629	40,946,883	43,373,860
Total Assets	51,415,233	49,819,264	616,869	728,015	52,032,102	50,547,279
Deferred Outflows	2,963,924	3,694,913	85,362	412,302	3,049,286	4,107,215
TOTAL ASSETS AND DEFERRED OUTFLOWS	54,379,157	53,514,177	702,231	1,140,317	55,081,388	54,654,494
Current Liabilities	3,043,351	3,219,302	15,689	22,557	3,059,040	3,241,859
Non-Current Liabilities	37,230,577	35,758,684	358,110	1,622,701	37,588,687	37,381,385
Total Liabilities	40,273,928	38,977,986	373,799	1,645,258	40,647,727	40,623,244
Deferred Inflows	635,843	538,820	23,357	27,760	659,200	566,580
Net Position						
Investment in capital assets						
(net of related debt)	12,499,672	15,914,605	422,240	361,629	12,921,912	16,276,234
Restricted	1,451,179	2,105,416	(117,165)	(894,330)	1,334,014	1,211,086
Unrestricted	(481,465)	(4,022,650)	-	-	(481,465)	(4,022,650)
Total Net Position	\$ 13,469,386	\$ 13,997,371	\$ 305,075	\$ (532,701)	\$ 13,774,461	\$ 13,464,670

Statement of Activities

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
REVENUES						
Program revenues						
Charges for services	\$ -	\$ 1,544	\$ 62,488	\$ 62,649	\$ 62,488	\$ 64,193
Operating grants and contributions	6,927,797	7,036,325	2,895,083	3,047,631	9,822,880	10,083,956
Capital grants	179,063	95,051			179,063	95,051
General revenues						
Property taxes	4,526,684	4,689,321			4,526,684	4,689,321
Motor vehicle taxes	789,267	902,701			789,267	902,701
Utility Taxes	1,066,742	1,041,713			1,066,742	1,041,713
Other taxes	10,980	19,300			10,980	19,300
Investment earnings	53,125	67,981	904	695	54,029	68,676
State and formula grants	25,638,910	25,293,732			25,638,910	25,293,732
Miscellaneous	6,176,987	998,533	200,210		6,377,197	998,533
Total revenues	<u>45,369,555</u>	<u>40,146,201</u>	<u>3,158,685</u>	<u>3,110,975</u>	<u>48,528,240</u>	<u>43,257,176</u>
EXPENSES						
Program Activities						
Instructional	25,712,451	25,623,586			25,712,451	25,623,586
Student support	1,702,524	1,510,819			1,702,524	1,510,819
Instructional staff Support	1,752,477	1,499,056			1,752,477	1,499,056
District administrative support	1,063,302	967,799			1,063,302	967,799
School administrative support	2,219,110	2,161,826			2,219,110	2,161,826
Business support	866,891	701,384			866,891	701,384
Plant operations and maintenance	4,747,379	4,595,610			4,747,379	4,595,610
Student transportation	2,463,179	2,439,892			2,463,179	2,439,892
Community service activities	455,096	450,174			455,096	450,174
Debt Service	926,078	794,637			926,078	794,637
Other	193	1,301			193	1,301
Business-type Activities						
Food service			3,541,796	2,820,883	3,541,796	2,820,883
Community education			-	-	-	-
Total operating expenses	<u>41,908,680</u>	<u>40,746,084</u>	<u>3,541,796</u>	<u>2,820,883</u>	<u>45,450,476</u>	<u>43,566,967</u>
Revenue Over (Under) Expend.	<u>\$ 3,460,875</u>	<u>\$ (599,883)</u>	<u>\$ (383,111)</u>	<u>\$ 290,092</u>	<u>\$ 3,077,764</u>	<u>\$ (309,791)</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance benefits, administration fees, technology, retirement plans and debt service. The total on-behalf payments for 2016 and 2017 were \$7,050,812 and \$7,143,678 respectively.

Governmental Activities

For the governmental program, instructional expense comprises 62.9% of total expense and includes the Schools' expenditures for staff and supplies. Support services equate to 34.1% of total expense and are comprised of spending for student support, staff support, district administrative support, business support and plant operation and maintenance. Interest and other expenses make up the remaining 3.0% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Instructional	\$ 25,712,451	\$ 25,623,586	\$ 20,110,325	\$ 19,718,660
Support Services	14,815,055	13,877,687	13,944,394	13,194,408
Other	455,096	450,174	86	510
Interest Costs	<u>926,078</u>	<u>794,637</u>	<u>747,015</u>	<u>699,586</u>
Total Expenses	<u>\$ 41,908,680</u>	<u>\$ 40,746,084</u>	<u>\$ 34,801,820</u>	<u>\$ 33,613,164</u>

Business-Type Activities

The business type activities at the District are Food Service and Community Education. These programs had total revenues of \$3,110,975 and expenses of \$2,820,883 for fiscal year 2017. These revenues were made up of \$62,649 charges for services, \$3,047,631 federal and state operating grants and \$695 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

FSPK and Construction Funds Revenue/Expenditures

Fund 310 is the capital outlay fund and Fund 320 is the building fund (FSPK). State funding makes up the Capital Outlay fund and building fund is made up of state and local revenue. Fund 400 is the debt service fund and is used to make debt payments. There, the funds 310 and 320 were used to collect the state and local revenues, and transfers were then made to Fund 400 as debt service payments came due.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$28,976,981 with actual results being \$31,817,280. Budgeted expenditures were \$36,362,153 compared to actual expenditures of \$36,661,974.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2017 fiscal year, the District had invested \$43,373,860 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net increase of \$2,426,977. Depreciation expense for the year was \$2,109,839 and capital additions were \$4,536,816.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Land	\$ 409,580	\$ 409,580	\$ -	\$ -	\$ 409,580	\$ 409,580
Construction in Progress	1,381,868	4,994,514			1,381,868	4,994,514
Buildings and Improvements	35,245,410	33,873,184	-	-	35,245,410	33,873,184
Technology	707,075	465,851	-	-	707,075	465,851
Vehicles	2,305,788	2,884,714	-	-	2,305,788	2,884,714
General Equipment	<u>474,922</u>	<u>384,388</u>	<u>422,240</u>	<u>361,629</u>	<u>897,162</u>	<u>746,017</u>
Total	<u>\$40,524,643</u>	<u>\$43,012,231</u>	<u>\$ 422,240</u>	<u>\$ 361,629</u>	<u>\$40,946,883</u>	<u>\$ 43,373,860</u>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Beginning Balance	\$ 39,817,933	\$ 40,524,643	\$ 483,736	\$ 422,240	\$ 40,301,669	\$ 40,946,883
Additions	2,716,381	4,536,816	-	-	2,716,381	4,536,816
Retirements	(69,938)	(506,107)	-	-	(69,938)	(506,107)
Depreciation	<u>(1,939,733)</u>	<u>(1,543,121)</u>	<u>(61,496)</u>	<u>(60,611)</u>	<u>(2,001,229)</u>	<u>(1,603,732)</u>
Ending Balance	<u>\$ 40,524,643</u>	<u>\$ 43,012,231</u>	<u>\$ 422,240</u>	<u>\$ 361,629</u>	<u>\$ 40,946,883</u>	<u>\$ 43,373,860</u>

Long-Term Debt

The District made scheduled bond principal payments in the amount of \$1,600,000 and financed nine additional buses through KISTA which added \$927,586 to capital lease payments. In addition to the KISTA lease, the District was assessed \$355,503 by Kentucky School Boards Insurance Trust (KSBIT) as of June 30, 2013. The balance on this assessment is \$126,732.

Outstanding Debt at Year-End

	Government	
	Activities (in millions)	
	<u>2016</u>	<u>2017</u>
Capital Lease Obligations	\$ 1.89	\$ 2.56
General Bond Obligations	26.14	24.54
Net Pension Liability	8.61	9.81
KSBIT Assessment	.22	.17
Accrued Sick Leave	<u>1.34</u>	<u>.85</u>
Total Obligations	<u>\$ 38.2</u>	<u>\$ 37.93</u>

Future Budgetary Implications

In Kentucky, the public school's fiscal year is July 1 – June 30; other programs, i.e. some Federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for fiscal year 2017-2018 with an approximate 4.0% contingency.

The state did not mandate pay increases and none were given for the 2017-2018 school year. The SEEK base received from the State remained at \$3,981. With a declining pupil adjusted average daily attendance (AADA), the total SEEK funding is projected to decrease \$369,875. Since state funding is not keeping pace with rising costs it will continue to be an issue. Increasing retirement costs borne by the District is one of the significant issues that will impact future budgets.

The District has not experienced any real growth in student population for several years, although costs of providing services continue to increase. Thus, management will continue to be challenged with balancing our staffing needs with declining enrollment and providing the resources to meet the students' needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (606) 365-2124 or by mail at Lincoln County Board of Education, 305 Danville Avenue, Stanford, KY 40484.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	5,608,306	284,427	5,892,733
Accounts Receivable:			
Taxes - Current	162,024		162,024
Taxes - Delinquent	10,006		10,006
Accounts	59,474	44,404	103,878
Intergovernmental - State	24,350		24,350
Intergovernmental - Federal	942,873		942,873
Inventories for Consumption		37,555	37,555
Total Current Assets	6,807,033	366,386	7,173,419
Noncurrent Assets - Note G			
Land	409,580		409,580
Construction In Progress	4,994,514		4,994,514
Buildings & Improvements	55,826,446		55,826,446
Furniture & Equipment	13,051,877	1,418,970	14,470,847
Less: Accumulated Depreciation	(31,270,186)	(1,057,341)	(32,327,527)
Total Noncurrent Assets	43,012,231	361,629	43,373,860
TOTAL ASSETS	49,819,264	728,015	50,547,279
Deferred Outflows Related to Pensions	3,242,555	412,302	3,654,857
Deferred Outflows from Advanced Bond Refundings	452,358		452,358
TOTAL ASSETS AND DEFERRED OUTFLOWS	53,514,177	1,140,317	54,654,494
LIABILITIES:			
Current Liabilities:			
Accounts Payable	333,788	22,557	356,345
Accrued Salaries & Sick Leave - Note A	231,340		231,340
Advances from Grantors	491,299		491,299
KSBIT Assessment - Note T	42,244		42,244
Bond Obligations - Note E	1,590,000		1,590,000
Capital Lease Obligation - Note F	343,498		343,498
Accrued Interest Payable	187,133		187,133
Total Current Liabilities	3,219,302	22,557	3,241,859
Noncurrent Liabilities:			
Bond Obligations - Note E	22,945,000		22,945,000
Unamortized Bond Premiums	40,105		40,105
Capital Lease Obligation - Note F	2,219,128		2,219,128
KSBIT Assessment - Note T	126,733		126,733
Net Pension Liability	9,812,825	1,622,701	11,435,526
Accrued Sick Leave - Note A	614,893		614,893
Total Noncurrent Liabilities	35,758,684	1,622,701	37,381,385
TOTAL LIABILITIES	38,977,986	1,645,258	40,623,244
Deferred Inflows Related to Pensions	538,820	27,760	566,580
TOTAL LIABILITIES AND DEFERRED INFLOWS	39,516,806	1,673,018	41,189,824
NET POSITION:			
Net Investment in Capital Assets	15,914,605	361,629	16,276,234
Restricted for:			
Capital Projects	1,092,011		1,092,011
SFCC Escrow	76,355		76,355
School Activities	71,210		71,210
Debt Service	865,840		865,840
Food Service		(894,883)	(894,883)
Other		553	553
Unrestricted	(4,022,650)		(4,022,650)
TOTAL NET POSITION	13,997,371	(532,701)	13,464,670
TOTAL LIABILITIES AND NET POSITION	53,514,177	1,140,317	54,654,494

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	25,623,586	1,544	5,903,382		(19,718,660)		(19,718,660)
Support Services:							
Student Support Services	1,510,819		147,007		(1,363,812)		(1,363,812)
Staff Support Services	1,499,056		508,195		(990,861)		(990,861)
District Administration	967,799				(967,799)		(967,799)
School Administration	2,161,826				(2,161,826)		(2,161,826)
Business Support Services	701,384				(701,384)		(701,384)
Plant Operation & Maintenance	4,595,610		277		(4,595,333)		(4,595,333)
Student Transportation	2,439,892		27,800		(2,412,092)		(2,412,092)
Central Office	1,301				(1,301)		(1,301)
Community Service Operations	450,174		449,664		(510)		(510)
Interest on Long-Term Debt	794,637			95,051	(699,586)		(699,586)
TOTAL GOVERNMENTAL ACTIVITIES	40,746,084	1,544	7,036,325	95,051	(33,613,164)		(33,613,164)
BUSINESS-TYPE ACTIVITIES:							
Community Education			550			550	550
Food Service	2,820,883	62,649	3,047,081			288,847	288,847
TOTAL BUSINESS-TYPE ACTIVITIES	2,820,883	62,649	3,047,631	0	0	289,397	289,397
TOTAL SCHOOL DISTRICT	43,566,967	64,193	10,083,956	95,051	(33,613,164)	289,397	(33,323,767)
GENERAL REVENUES:							
Taxes:							
Property					4,689,321		4,689,321
Motor Vehicle					902,701		902,701
Utility					1,041,713		1,041,713
Other					19,300		19,300
State Aid - Formula Grants					25,293,732		25,293,732
Investment Earnings					67,981	695	68,676
Miscellaneous					357,281		357,281
SPECIAL ITEMS:							
Loss Compensation					602,026		602,026
Gain(Loss) Sale of Assets					39,226		39,226
TOTAL GENERAL & SPECIAL					33,013,281	695	33,013,976
CHANGE IN NET POSITION					(599,883)	290,092	(309,791)
NET POSITION - BEGINNING OF YEAR AS RESTATED - NOTE R					14,597,254	(822,793)	13,774,461
NET POSITION - ENDING					13,997,371	(532,701)	13,464,670

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	SEEK CAPITAL OUTLAY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	3,497,715		865,840	824,587	420,164	5,608,306
Accounts Receivable:						
Taxes - Current	162,024					162,024
Taxes - Delinquent	10,006					10,006
Accounts	59,474					59,474
Interfund Receivable	425,499					425,499
Intergovernmental - State		24,350				24,350
Intergovernmental - Federal		942,873				942,873
TOTAL ASSETS	<u>4,154,718</u>	<u>967,223</u>	<u>865,840</u>	<u>824,587</u>	<u>420,164</u>	<u>7,232,532</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	278,188	50,425			5,175	333,788
Accrued Salaries & Sick Leave	231,340					231,340
Interfund Payable		425,499				425,499
Advances from Grantors		491,299				491,299
Total Liabilities	<u>509,528</u>	<u>967,223</u>	<u>0</u>	<u>0</u>	<u>5,175</u>	<u>1,481,926</u>
Fund Balance:						
Restricted for:						
Capital Projects				824,587	267,424	1,092,011
School Activities					71,210	71,210
SFCC Escrow					76,355	76,355
Debt Service			865,840			865,840
Committed for:						
Site Based Carryforward	82,746					82,746
Accrued Sick Leave	614,893					614,893
Assigned for:						
Purchase Obligations	192,525					192,525
Unassigned Fund Balance	2,755,026					2,755,026
Total Fund Balance	<u>3,645,190</u>	<u>0</u>	<u>865,840</u>	<u>824,587</u>	<u>414,989</u>	<u>5,750,606</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>4,154,718</u>	<u>967,223</u>	<u>865,840</u>	<u>824,587</u>	<u>420,164</u>	<u>7,232,532</u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		5,750,606
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	74,282,417	
Accumulated Depreciation	<u>(31,270,186)</u>	43,012,231
Deferred Outflows on Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		452,358
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		3,242,555
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(24,535,000)	
Unamortized Bond Premiums	(40,105)	
Capital Lease Obligation	(2,562,626)	
Accrued Interest on Bonds	(187,133)	
KSBIT Assessment	(168,977)	
Net Pension Liability	(9,812,825)	
Accrued Sick Leave	<u>(614,893)</u>	(37,921,559)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(538,820)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>13,997,371</u></u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	SEEK CAPITAL OUTLAY FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	4,156,403				532,918	4,689,321
Motor Vehicle	902,701					902,701
Utility	1,041,713					1,041,713
Other	19,300					19,300
Earnings on Investments	66,488	1,493				67,981
Intergovernmental - State	23,738,175	1,066,736	519,770	338,677	793,641	26,456,999
Intergovernmental - Federal	116,838	5,851,271				5,968,109
Other Sources	61,129	200,360			97,336	358,825
TOTAL REVENUES	30,102,747	7,119,860	519,770	338,677	1,423,895	39,504,949
EXPENDITURES:						
Instructional	18,871,005	5,922,885			100,526	24,894,416
Support Services:						
Student Support Services	1,349,134	147,493				1,496,627
Staff Support Services	975,086	509,874				1,484,960
District Administration	962,530					962,530
School Administration	2,134,415					2,134,415
Business Support Services	736,179					736,179
Plant Operation & Maintenance	3,888,400	278				3,888,678
Student Transportation	2,982,766	27,892				3,010,658
Community Service Operations		449,664				449,664
Facilities Acquisition & Construction					3,612,648	3,612,648
Debt Service:						
Principal			1,854,931			1,854,931
Interest			738,538			738,538
TOTAL EXPENDITURES	31,899,515	7,058,086	2,593,469	0	3,713,174	45,264,244
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(1,796,768)	61,774	(2,073,699)	338,677	(2,289,279)	(5,759,295)
OTHER FINANCING SOURCES(USES):						
Capital Lease Financing	927,586					927,586
Loss Compensation	602,026					602,026
Proceeds from Sale of Assets	39,226					39,226
Operating Transfers In - Note O	145,695	83,921	2,939,539		3,851,953	7,021,108
Operating Transfers Out - Note O	(4,762,459)	(145,695)		(338,677)	(1,774,277)	(7,021,108)
TOTAL OTHER FINANCING SOURCES	(3,047,926)	(61,774)	2,939,539	(338,677)	2,077,676	1,568,838
NET CHANGE IN FUND BALANCES	(4,844,694)	0	865,840	0	(211,603)	(4,190,457)
FUND BALANCES - BEGINNING	8,489,884	0	0	824,587	626,592	9,941,063
FUND BALANCES - ENDING	3,645,190	0	865,840	824,587	414,989	5,750,606

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		(4,190,457)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(2,049,228)	
Capital Outlays	<u>4,536,816</u>	2,487,588
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Bond Principal Paid	1,854,931	
Capital Lease Financing	<u>(927,586)</u>	927,345
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Bond Refundings	(63,377)	
Amortization - Bond Premiums	3,027	
District Pension Contributions	692,960	
Cost of Benefits Earned Net of Employee Contributions	(998,549)	
Accrued Interest Payable	4,251	
KSBIT Assessment	47,509	
Accrued Sick Leave	<u>489,820</u>	175,641
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u>(599,883)</u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	283,874	553	284,427
Accounts Receivable	44,404		44,404
Inventories for Consumption	37,555		37,555
Total Current Assets	365,833	553	366,386
Noncurrent Assets:			
Furniture & Equipment	1,418,970		1,418,970
Less: Accumulated Depreciation	(1,057,341)		(1,057,341)
Total Noncurrent Assets	361,629	0	361,629
TOTAL ASSETS	727,462	553	728,015
Deferred Outflows Related to Pensions	412,302		412,302
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,139,764	553	1,140,317
LIABILITIES:			
Current Liabilities:			
Account Payable	22,557		22,557
Total Current Liabilities	22,557	0	22,557
Noncurrent Liabilities:			
Net Pension Liability	1,622,701		1,622,701
Total Noncurrent Liabilities	1,622,701	0	1,622,701
TOTAL LIABILITIES	1,645,258	0	1,645,258
Deferred Inflows Related to Pensions	27,760		27,760
TOTAL LIABILITIES AND DEFERRED INFLOWS	1,673,018	0	1,673,018
Net Position:			
Net Investment in Capital Assets	361,629		361,629
Restricted	(894,883)	553	(894,330)
Total Net Position	(533,254)	553	(532,701)
TOTAL LIABILITIES AND NET POSITION	1,139,764	553	1,140,317

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	58,988		58,988
Other Operating Revenues	3,661	550	4,211
TOTAL OPERATING REVENUES	62,649	550	63,199
OPERATING EXPENSES:			
Salaries & Benefits	1,029,309		1,029,309
Contract Services	41,359		41,359
Materials & Supplies	1,664,793		1,664,793
Depreciation - Note F	60,611		60,611
Other Operating Expenses	24,811		24,811
TOTAL OPERATING EXPENSES	2,820,883	0	2,820,883
OPERATING INCOME(LOSS)	(2,758,234)	550	(2,757,684)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	2,689,207		2,689,207
State Grants	208,497		208,497
Donated Commodities	149,377		149,377
Interest Income	692	3	695
TOTAL NONOPERATING REVENUE	3,047,773	3	3,047,776
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	289,539	553	290,092
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSITION	289,539	553	290,092
TOTAL NET POSITION - BEGINNING AS RESTATED - NOTE R	(822,793)		(822,793)
TOTAL NET POSITION - ENDING	(533,254)	553	(532,701)

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	FOOD SERVICE FUND	COMMUNITY EDUCATION FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Lunchroom Sales	58,988		58,988
Other Activities	3,661	550	4,211
Cash Paid to/for:			
Employees	(1,030,255)		(1,030,255)
Supplies	(1,503,784)		(1,503,784)
Other Activities	(66,170)		(66,170)
Net Cash Provided (Used) by Operating Activities	(2,537,560)	550	(2,537,010)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Federal Grants	2,645,165		2,645,165
State Grants	23,629		23,629
Net Cash Provided by Non-Capital and Related Financing Activities	2,668,794	-	2,668,794
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of Interest Income	692	3	695
Net Cash Provided by Investing Activities	692	3	695
Net Increase in Cash and Cash Equivalents	131,926	553	132,479
Balances, Beginning of Year	151,948		151,948
Balances, End of Year	283,874	553	284,427
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(2,758,234)	550	(2,757,684)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	60,611		60,611
State On-Behalf Payments	184,868		184,868
Donated Commodities	149,377		149,377
Change in Assets and Liabilities:			
Net Pension Liability	(185,814)		(185,814)
Inventory	4,764		4,764
Accounts Payable	6,868		6,868
Net Cash Provided (Used) by Operating Activities	(2,537,560)	550	(2,537,010)
Schedule of Non-Cash Transactions:			
Donated Commodities	149,377	-	149,377
State On-Behalf Payments	184,868	-	184,868

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	423,376
Accounts Receivable	<u>628</u>
TOTAL ASSETS	<u>424,004</u>
LIABILITIES:	
Accounts Payable	22,837
Due to Student Groups	<u>401,167</u>
TOTAL LIABILITIES	<u>424,004</u>
NET POSITION IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lincoln County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Lincoln County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lincoln County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Lincoln County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Lincoln County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan. This is a major fund of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$0.516 per \$100 valuation for real property, \$0.516 per \$100 valuation for business personal property, and \$0.542 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	614,893	Long-Term Sick Leave Commitment
General Fund	82,746	Site Based Carryforward

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$6,316,109. Of the total cash balance, \$1,250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2017, consisted of the following:

	Bank Balance	Book Balance
Farmers Bank	6,683,490	5,450,269
U.S. Bank	<u>865,840</u>	<u>865,840</u>
Total Cash	<u>7,549,330</u>	<u>6,316,109</u>
Breakdown per financial statements:		
Governmental Funds		5,608,306
Proprietary Funds		<u>284,427</u>
Cash per Statement of Net Position		5,892,733
Agency Funds		<u>423,376</u>
Total Cash		<u>6,316,109</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Lincoln County School District Finance Corporation aggregating \$29,165,000.

The original amount of each issue and interest rates are summarized below:

2009	3,130,000	2.00% - 3.00%
2009 ECB	725,000	1.25% - 2.75%
2010 Refunding	4,215,000	2.00% - 3.30%
2012	2,145,000	1.15% - 3.20%
2012 Refunding	6,820,000	1.00% - 2.375%
2014 Refunding	5,385,000	2.75% - 3.625%
2015 Refunding	6,745,000	2.00% - 3.00%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Lincoln County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2017, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2017-18	1,590,000	656,575	519,771	1,726,804
2018-19	1,625,000	615,557	519,771	1,720,786
2019-20	1,615,000	573,354	463,460	1,724,894
2020-21	1,515,000	532,101	310,771	1,736,330
2021-22	1,570,000	490,618	310,771	1,749,847
2022-23	1,620,000	450,916	310,771	1,760,145
2023-24	1,655,000	413,266	310,772	1,757,494
2024-25	1,705,000	374,541	310,772	1,768,769
2025-26	1,735,000	333,316	285,138	1,783,178
2026-27	1,655,000	296,935	193,873	1,758,062
2027-28	1,715,000	249,285	193,873	1,770,412
2028-29	1,785,000	196,595	193,873	1,787,722
2029-30	1,845,000	137,610	193,873	1,788,737
2030-31	1,585,000	68,325	151,385	1,501,940
2031-32	<u>1,320,000</u>	<u>42,900</u>	<u>0</u>	<u>1,362,900</u>
	<u>24,535,000</u>	<u>5,431,894</u>	<u>4,268,874</u>	<u>25,698,020</u>

Long-term liability activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	26,135,000	0	1,600,000	24,535,000	1,590,000
Capital Lease Obligations	1,889,971	927,586	254,931	2,562,626	343,498
KSBIT Assessment	216,486	0	47,509	168,977	42,244
Net Pension Liability	8,615,847	1,196,978	0	9,812,825	0
Accrued Sick Leave	<u>1,342,947</u>	<u>0</u>	<u>496,714</u>	<u>846,233</u>	<u>231,340</u>
Total Governmental Activities:	38,200,251	2,124,564	2,399,154	37,925,661	2,207,082
Proprietary Activities:					
Net Pension Liability	<u>1,485,978</u>	<u>136,723</u>	<u>0</u>	<u>1,622,701</u>	<u>0</u>
Total Long-Term Liabilities:	<u>39,686,299</u>	<u>2,261,287</u>	<u>2,399,154</u>	<u>39,548,362</u>	<u>2,207,082</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2027. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2017.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2017</u>
Buses	3,360,296
Accumulated Amortization	<u>(1,002,141)</u>
	<u>2,358,155</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2018	404,450
2019	391,544
2020	331,254
2021	331,474
2022	323,714
2023-2027	<u>1,071,377</u>
Net minimum lease payments	2,853,813
Amount representing interest	<u>(291,187)</u>
Present value of net minimum lease payments	<u>2,562,626</u>

Interest rates on capitalized leases vary from 1.00% to 3.900%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	409,580			409,580
Construction	1,381,868	3,612,646		4,994,514
Depreciable Assets:				
Buildings & Building Improvements	55,826,446			55,826,446
Technology Equipment	3,952,789			3,952,789
Vehicles	7,308,235	924,170	506,107	7,726,298
General Equipment	1,372,790			1,372,790
TOTAL AT HISTORICAL COST	70,251,708	4,536,816	506,107	74,282,417
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	20,581,036	1,372,226		21,953,262
Technology Equipment	3,245,714	241,224		3,486,938
Vehicles	5,002,447	345,244	506,107	4,841,584
General Equipment	897,868	90,534		988,402
TOTAL ACCUMULATED DEPRECIATION	29,737,065	2,049,228	506,107	31,270,186
GOVERNMENTAL ACTIVITIES CAPITAL NET	40,524,643	2,487,588	0	43,012,231
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	65,921			65,921
General Equipment	1,353,049			1,353,049
TOTALS AT HISTORICAL COST	1,418,970	0	0	1,418,970
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	65,921			65,921
General Equipment	930,809	60,611		991,420
TOTAL ACCUMULATED DEPRECIATION	996,730	60,611	0	1,057,341
PROPRIETARY ACTIVITIES CAPITAL NET	422,240	(60,611)	0	361,629
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,010,538
Student Support Services				629
Staff Support Services				1,688
District Administration				2,671
School Administration				1,570
Business Support Services				5,661
Plant Operation & Maintenance				691,700
Student Transportation				332,960
Central Office				1,301
Community Service Operations				510
TOTAL				2,049,228

NOTE G – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("TRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at http://www.TRS.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 11,435,526
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>145,053,801</u>
	<u>\$ 156,489,327</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.232259% percent.

For the year ended June 30, 2017, the District recognized pension expense of \$927,326 related to CERS and \$2,386,731 related to TRS. The District also recognized revenue of \$2,386,731 TRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 109,889	\$ -
Changes of assumptions	1,333,406	-
Net difference between projected and actual earnings on pension plan investments	1,147,500	566,580
Changes in proportion and differences between District contributions and proportionate share of contributions	256,511	-
District contributions subsequent to the measurement date	<u>807,551</u>	<u>-</u>
Total	<u>\$ 3,654,857</u>	<u>\$ 566,580</u>

\$807,551 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year ended June 30:</u>
2018	656,018
2019	656,018
2020	470,654
2021	283,025
2022	215,011

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	TRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equities	45.0%	6.40%
Non U.S. Equity	17.0%	6.50%
Fixed Income	24.0%	1.60%
High Yield Bonds	4.0%	3.10%
Real Estate	4.0%	5.80%
Alternatives	4.0%	6.80%
Cash	2.0%	1.50%
Total	100.0%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 4.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	14,250,543	11,435,526	9,022,534
TRS	3.2%	4.2%	5.2%
District's proportionate share of net pension liability	0	0	0

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers’ Compensation insurance.

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	1,796,768
Construction	3,612,648
Debt Service	2,073,699
District Activity Fund	3,190

NOTE L – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	83,921
Operating	Special Revenue	General	Operations	143,638
Operating	General	Debt Service	Debt Service	826,585
Operating	General	Construction	Construction	3,851,953
Operating	Special Revenue	General	Indirect Costs	2,057
Operating	Capital Outlay	Debt Service	Debt Service	338,677
Operating	Building	Debt Service	Debt Service	<u>1,774,277</u>
Total Transferred Funds				<u>7,021,108</u>

NOTE N – INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue	\$425,499

The interfund payables/receivables represent temporary financing that will be repaid within one year.

NOTE O – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 19, 2017. There are no material subsequent events to disclose.

NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2017, \$7,143,678 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$2,386,731
Health Insurance	4,438,120
Life Insurance	7,352
Administrative Fee	58,345
HRA/Dental/Vision	243,959
Federal Reimbursement	(590,375)
Technology	79,776
SFCC Debt Service Payments	<u>519,770</u>
Total	<u>\$7,143,678</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2017, Lincoln County School District's remaining assessment is valued at \$168,977. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2018	42,244
2019	42,244
2020	42,244
2021	<u>42,245</u>
Total	<u>168,977</u>

NOTE R – NET POSITION, AS RESTATED

Beginning net position of the Governmental Activities was understated by \$1,127,868 and Business-Type Activities was overstated by \$1,127,868. Below are the details of the restatement:

	<u>Government Activities</u>	<u>Business-Type Activities</u>
Net Position June 30, 2016	\$ 13,469,386	\$ 305,075
Net Pension Allocation	<u>1,127,868</u>	<u>(1,127,868)</u>
Beginning Net Position, As Restated	<u>\$ 14,597,254</u>	<u>\$ (822,793)</u>

NOTE S – COMMITMENTS

Lincoln County School District is renovating multiple buildings. Construction for these projects is ongoing as of the audit date. It is anticipated that the completion of these projects will cost an additional \$1,925,801.

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,184,100	5,184,100	6,120,117	936,017
Other Local Sources	36,050	36,050	127,617	91,567
State Sources	23,510,789	23,510,789	23,738,175	227,386
Federal Sources	41,500	41,500	116,838	75,338
Other Sources	204,542	204,542	1,714,533	1,509,991
TOTAL REVENUES	28,976,981	28,976,981	31,817,280	2,840,299
EXPENDITURES:				
Instructional	19,234,989	19,234,989	18,871,005	363,984
Student Support Services	1,807,413	1,807,413	1,349,134	458,279
Staff Support Services	974,673	974,673	975,086	(413)
District Administration	1,037,075	1,037,075	962,530	74,545
School Administration	2,021,699	2,021,699	2,134,415	(112,716)
Business Support Services	722,162	722,162	736,179	(14,017)
Plant Operation & Maintenance	3,916,940	3,916,940	3,888,400	28,540
Student Transportation	3,038,894	3,038,894	2,982,766	56,128
Community Service Operations			0	0
Other	3,608,308	3,608,308	4,762,459	(1,154,151)
TOTAL EXPENDITURES	36,362,153	36,362,153	36,661,974	(299,821)
NET CHANGE IN FUND BALANCE	(7,385,172)	(7,385,172)	(4,844,694)	2,540,478
FUND BALANCES - BEGINNING	7,385,172	7,385,172	8,489,884	0
FUND BALANCES - ENDING	0	0	3,645,190	2,540,478

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	700	700	1,493	793
State Sources	1,285,535	1,285,535	1,066,736	(218,799)
Federal Sources	5,782,528	5,782,528	5,851,271	68,743
Other Sources	198,238	198,238	284,281	86,043
TOTAL REVENUES	<u>7,267,001</u>	<u>7,267,001</u>	<u>7,203,781</u>	<u>(63,220)</u>
EXPENDITURES:				
Instructional	6,095,240	6,095,240	5,922,885	172,355
Student Support Services	169,016	169,016	147,493	21,523
Staff Support Services	388,246	388,246	509,874	(121,628)
District Administration				
School Administration				
Business Support Services				
Plant Operation & Maintenance	21,862	21,862	278	21,584
Student Transportation	30,400	30,400	27,892	2,508
Food Service				
Central Office				
Community Service Operations	438,899	438,899	449,664	(10,765)
Facility Acquisition & Construction				
Other	123,338	123,338	145,695	(22,357)
TOTAL EXPENDITURES	<u>7,267,001</u>	<u>7,267,001</u>	<u>7,203,781</u>	<u>63,220</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

See accompanying auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State of Kentucky's share of the net pension liability associated with the district	<u>107,599,741</u>	<u>114,033,554</u>	<u>145,053,801</u>
TOTAL	<u><u>107,599,741</u></u>	<u><u>114,033,554</u></u>	<u><u>145,053,801</u></u>
District's covered-employee payroll	\$ 16,242,417	\$ 17,267,002	\$ 16,798,382
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

LINCOLN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.227394%	0.234952%	0.232259%
District's proportionate share of the net pension liability	\$ 7,377,999	10,101,825	11,435,526
State of Kentucky's share of the net pension liability associated with the district	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL	<u><u>\$ 7,377,999</u></u>	<u><u>10,101,825</u></u>	<u><u>11,435,526</u></u>
District's covered-employee payroll	\$ 6,088,163	5,561,734	5,788,896
District's proportionate share of the net pension liability as a percentage of its covered-payroll	121.19%	181.63%	197.54%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%	55.50%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

LINCOLN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 698,977	\$ 690,767	\$ 807,551
Contributions in relation to the actuarially determined contributions	<u>698,977</u>	<u>690,767</u>	<u>807,551</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 5,482,170	\$ 5,561,734	\$ 5,788,896
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

LINCOLN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
TEACHERS RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 610,217	\$ 844,073	\$ 818,361
Contributions in relation to the actuarially determined contributions	<u>610,217</u>	<u>844,073</u>	<u>818,361</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 16,242,417	\$ 17,267,002	\$ 16,798,382
Contributions as a percentage of Covered employee payroll	3.76%	4.88%	4.87%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2017 reported in that schedule:

Valuation Date	June 30, 2016
Inflation	3.50 percent
Salary Increases	3.50 – 8.2 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.82 Percent
Measurement Date	3.01 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	4.88 percent
Measurement Date	4.20 Percent
Post-Retirement Benefit Increases	1.50% annually

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	BUILDING FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	76,355	71,683	272,126	420,164
TOTAL ASSETS	<u>76,355</u>	<u>71,683</u>	<u>272,126</u>	<u>420,164</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable		473	4,702	5,175
Total Liabilities	0	473	4,702	5,175
Fund Balances:				
Restricted for:				
Capital Projects			267,424	267,424
School Activities		71,210		71,210
SFCC Escrow	76,355			76,355
Total Fund Balances	<u>76,355</u>	<u>71,210</u>	<u>267,424</u>	<u>414,989</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>76,355</u>	<u>71,683</u>	<u>272,126</u>	<u>420,164</u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	BUILDING FUND	DISTRICT ACTIVITY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	532,918			532,918
Intergovernmental - State	793,641			793,641
Other Sources		97,336		97,336
TOTAL REVENUES	1,326,559	97,336	0	1,423,895
EXPENDITURES:				
Instructional		100,526		100,526
Facilities Acquisition & Construction			3,612,648	3,612,648
TOTAL EXPENDITURES	0	100,526	3,612,648	3,713,174
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	1,326,559	(3,190)	(3,612,648)	(2,289,279)
OTHER FINANCING SOURCES(USES):				
Loss Compensation				0
Operating Transfers In			3,851,953	3,851,953
Operating Transfers Out	(1,774,277)			(1,774,277)
TOTAL OTHER FINANCING SOURCES(USES)	(1,774,277)	0	3,851,953	2,077,676
NET CHANGE IN FUND BALANCES	(447,718)	(3,190)	239,305	(211,603)
FUND BALANCES - BEGINNING	524,073	74,400	28,119	626,592
FUND BALANCES - ENDING	76,355	71,210	267,424	414,989

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	FUND BALANCE JULY 1, 2016	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2017
Lincoln County High School	217,635	561,378	523,291	255,722
Fort Logan High School	1,029	1,266	1,501	794
Lincoln County Middle School	62,593	196,224	199,054	59,763
McGuffey 6th Grade Center	7,306	57	7,363	-
Crab Orchard Elementary	4,701	37,567	32,653	9,615
Highland Elementary	9,906	31,104	32,951	8,059
Hustonville Elementary	25,294	73,941	77,898	21,337
McKinney Elementary	28,039	32,143	26,621	33,561
Stanford Elementary	27,943	70,754	78,515	20,182
Waynesburg Elementary	18,154	36,913	40,724	14,343
Total Activity Funds (Due to Student Groups)	402,600	1,041,347	1,020,571	423,376

See independent accountant's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	CASH BALANCE JULY 1, 2016	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2017	ACCOUNTS RECEIVABLE JUNE 30, 2017	ACCOUNTS PAYABLE JUNE 30, 2017	FUND BALANCE JUNE 30, 2017
General Fund	1,709	1,618	2,686	641			641
LCHS Special Acct.	1,260	0	(93)	1,353			1,353
Flower Fund	693	210	612	291			291
District Attendance	723	300	213	810			810
Lock Account	559	53	368	244			244
Student Parking	2,309	2,115	4,261	163			163
Social Committee	109	0	109	0			0
Book Scholarship Fund	14	0	0	14			14
Teacher's Pepsi Account	1,350	1,611	2,163	798			798
Chrome Books	0	10,019	8,870	1,149			1,149
Project Graduation	2,621	8,132	7,278	3,475			3,475
Prom Account	15,251	9,350	7,713	16,888			16,888
Yearbook	6,456	5,517	4,103	7,870			7,870
Student Pepsi Account	332	1,110	1,368	74			74
Student Vending	555	107	470	192			192
Teacher Vending	109	42	109	42			42
Picture Account	2,296	2,134	0	4,430			4,430
Hats On	100	0	0	100			100
Art Department	40	1,091	419	712			712
Business Department	2,878	0	0	2,878			2,878
Computer Lab	411	0	0	411			411
Culinary	334	578	550	362			362
VO. AG. Special	1,204	0	145	1,059			1,059
Floral Design	600	0	143	457			457
Family & Cons. Science	1,031	0	0	1,031			1,031
Horticulture	11,217	12,087	17,082	6,222			6,222
Industrial Arts	315	0	160	155			155
Language Arts Department	224	48	0	272			272
Math Department	30	0	0	30			30
Physical Education Department	459	64	64	459			459
Science Fair	65	0	0	65			65
Marketing	170	1,556	573	1,153			1,153
Unite to Read	35	0	0	35			35
Athletics	15,529	50,662	47,276	18,915			18,915
A.D. Financial Aid	11,678	18,250	24,948	4,980			4,980
Baseball BC	3,226	25,422	23,438	5,210			5,210
Boys Basketball BC	8,760	24,686	27,176	6,270			6,270
Girls Basketball/BC	5,128	26,409	27,897	3,640			3,640
Football BC	11,163	71,229	65,264	17,128			17,128
Boys Golf BC	50	303	0	353			353
Girls Golf BC	34	147	25	156			156
Boys Soccer BC	2,231	10,095	9,224	3,102			3,102
Girls Soccer BC	1,157	6,166	4,183	3,140			3,140
Softball BC	2,260	25,612	20,436	7,436			7,436
Boys and Girls Tennis BC	155	2,891	2,983	63			63
Boys Track	819	2,871	1,426	2,264			2,264
Cross Country BC	434	654	330	758			758
Girls Volleyball BC	1,475	5,477	6,247	705			705
District Softball	0	2,148	856	1,292			1,292
Baseball District	1,429	0	0	1,429			1,429
Volleyball District	225	0	0	225			225
Cheerleaders	3,160	17,324	17,482	3,002			3,002
Girls Track	372	408	780	0			0
Death Valley Bowl	5,400	22,390	21,435	6,355			6,355
Bass Fishing BC	788	2,360	0	3,148			3,148
District Basketball	8,722	0	0	8,722			8,722
Hospitality Room	62	0	0	62			62
Regional Basketball	12,249	33,387	30,178	15,458			15,458
Training/F.A.	1,497	0	1,186	311			311

Archery BC	10,351	47,711	26,983	31,079			31,079
Football Playoffs	3,080	1,293	0	4,373			4,373
Bowling BC	1,953	3,045	2,664	2,334			2,334
Uniform FA	2,841	5,000	7,128	713			713
Baseball FA	260	1,250	1,510	0			0
Boys Basketball FA	458	2,500	2,675	283			283
Girls Basketball FA	3,504	2,505	6,009	0			0
Football FA	2,147	5,000	4,165	2,982			2,982
Boys Golf FA	137	1,200	1,152	185			185
Girls Golf FA	820	410	672	558			558
Boys Soccer FA	1,407	1,250	500	2,157			2,157
Girls Soccer FA	887	1,255	1,009	1,133			1,133
Softball FA	1,408	1,250	2,151	507			507
B&G Tennis FA	478	810	793	495			495
Boys Track & Field FA	50	400	450	0			0
Cross Country FA	293	810	0	1,103			1,103
Girls Volleyball FA	850	1,250	1,369	731			731
Cheerleaders FA	795	4,712	3,889	1,618			1,618
Girls Track & Field	60	410	400	70			70
Bass Fishing FA	171	500	305	366			366
Archery FA	597	750	1,260	87			87
Bowling FA	111	500	0	611			611
Beta Club	1,376	845	742	1,479			1,479
Jr. Guard/JROTC	2,000	0	0	2,000			2,000
Spring Musical	584	5,301	2,591	3,294			3,294
F.B.L.A.	49	4,506	4,144	411			411
F.C.A.	953	0	0	953			953
F.F.A.	1,124	22,827	22,665	1,286			1,286
F.C.C.L.A.	1,554	2,748	2,078	2,224			2,224
Guidance Department	726	750	1,444	32			32
Teens For Change	161	0	0	161			161
Library	2,774	1,327	406	3,695			3,695
National Honor Society	1,016	2,198	2,463	751			751
Teenage Republicans	122	0	0	122			122
Pep Club	2,067	1,885	2,171	1,781			1,781
F.E.A.	708	0	0	708			708
Student Y/KYA	1,279	1,250	1,655	874			874
Youth Service Center	21	0	0	21			21
Key Club	2,228	30	75	2,183			2,183
Drama Club	414	0	0	414			414
The Spain Club	0	4,982	4,207	775			775
Art Honor Society	334	0	0	334			334
National Art Honor Society	156	0	0	156			156
Band	1,561	17,793	16,780	2,574			2,574
Chorus	3,021	3,979	4,411	2,589			2,589
Senior Class	527	3,312	3,565	274			274
Junior Class	675	0	74	601			601
Sophomore Class	23	0	0	23			23
Freshman Class	152	0	0	152			152
Academic Team	84	64	64	84			84
Student Council	1,232	0	171	1,061			1,061
Foreign Language	246	0	0	246			246
Arts & Humanity	9	0	0	9			9
Relay For Life	89	0	0	89			89
Auditorium/Tickets	63	0	45	18			18
Auditorium/Rental	629	0	0	629			629
Textbooks	2,502	358	0	2,860			2,860
Patriot Printing	285	0	0	285			285
Rugby	270	0	0	270			270
National French Honor	501	490	31	960			960
Total All Funds	217,635	565,089	527,002	255,722	0	0	255,722
Interfund Transfers	0	(3,711)	(3,711)	0	0	0	0
Total	217,635	561,378	523,291	255,722	0	0	255,722

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Parent Involvement	84.010	3100002	310BM	4,024
Title I - Grants to Local Educational Agencies	84.010	3100002	310C	924,498
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	494,540
Title I - Grants to Local Educational Agencies	84.010	3100002	310CM	15,752
Title I - School Improvement	84.010	3100201	320CE	133,216
Title I - School Improvement	84.010	3100202	320CE	10,905
Title I Cluster				<u>1,582,935</u>
School Improvement Grants	84.377	3100302	4604	104,339
Title II - Part A -Teacher Quality Enhancement Grants	84.367	3230002	401B	16,467
Title II - Part A -Teacher Quality Enhancement Grants	84.367	3230002	401C	<u>208,798</u>
Total Title II - Part A				225,265
Perkins Voc.	84.048	3710002	348AA	238
Perkins Voc.	84.048	3710006	348BA	1,627
Perkins Voc.	84.048	3710002	348C	<u>39,810</u>
Total Perkins Voc.				41,675
IDEA - Special Education - Grants to State	84.027	3810002	337B	91,554
IDEA - Special Education - Grants to State	84.027	3810002	337C	742,778
IDEA - Special Education - Grants to State	84.027	3810002	337AP	4,493
IDEA - Special Education - Preschool Grants	84.173	3800002	343C	<u>91,003</u>
Special Education Cluster				929,828
21st Century Learning Center	84.287	3400002	550A	43,360
21st Century Learning Center	84.287	3400002	550AC	24,946
21st Century Learning Center	84.287	3400002	550AH	14,257
21st Century Learning Center	84.287	3400002	550AU	17,000
21st Century Learning Center	84.287	3400002	550B	100,933
21st Century Learning Center	84.287	3400002	550BC	79,791
21st Century Learning Center	84.287	3400002	550BH	70,496
21st Century Learning Center	84.287	3400002	550BJ	857
21st Century Learning Center	84.287	3400002	550BU	15,000
21st Century Learning Center	84.287	3400002	550BE	<u>126,754</u>
21st Century Learning Center Total				493,394 *
Migrant Education - State Grant Program	84.011	3110002	311B	51,736
Migrant Education - State Grant Program	84.011	3110002	311C	<u>96,295</u>
Migrant Education Total				148,031
Title IV - Rural and Low Income Schools	84.358	3140002	350B	12,504
Title IV - Rural and Low Income Schools	84.358	3140002	350C	<u>63,060</u>
Title IV - Rural and Low Income Schools Total				75,564
Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379AB	379AB	100
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379CB	379CB	36,143
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379CC	379CC	2,897
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379CL	379CL	618

Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379BB	379BB	14,789
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379CR	379CR	2,404
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379CS	379CS	57,730
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379BL	379BL	614
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379BR	379BR	11,470
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379BS	379BS	1,002
Gaining Early Awareness and Readiness for Undergraduate Programs Total				127,767
Kentucky Appalachian Higher Education	23.011	AHEDA	AHEDB	8
Total U.S. Department of Education				3,728,806
<u>U.S. Department of Health and Human Services</u>				
Head Start	93.600	Direct	655B	17,975
Head Start	93.600	Direct	655C	1,442,396
Head Start - Early Head Start	93.600	Direct	655BH	15,801
Head Start - Early Head Start	93.600	Direct	655CH	470,337
Head Start Total				1,946,509
Total U.S. Department of Health and Human Services				1,946,509
<u>U.S. Department of Labor</u>				
Passed-Through Department of Education				
Workforce Investment Act	17.259	588A	588B	419
Workforce Investment Act	17.259	588AA	588BA	240
Workforce Investment Act	17.259	588B	588C	31,482
Workforce Investment Act	17.259	588BA	588CA	29,148
Total Workforce Employment Act				61,289
Total U.S. Department of Labor				61,289
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
National School Lunchroom	10.555	7750002-15	7750002-16	373,603
National School Lunchroom	10.555	7750002-16	7750002-17	1,364,833
School Breakfast Program	10.553	7760005-15	7760005-16	176,787
School Breakfast Program	10.553	7760005-16	7760005-17	658,291
Summer Food Service Program	10.559	7690024-16	7690024-16	61,107
Summer Food Service Program	10.559	7740023-17	7740023-17	1,329
Child Nutrition Cluster				2,635,950 *
Child & Adult Care Food Program	10.558	7790021-15	7790021-16	11,338
Child & Adult Care Food Program	10.558	7790021-16	7790021-17	83,541
Child & Adult Care Food Program	10.558	7800016-15	7800016-16	507
Child & Adult Care Food Program	10.558	7800016-16	7800016-17	4,697
Child & Adult Care Food Program Total				100,083
Fresh Fruit and Vegetable Program	10.582	7720012-15	7720012-16	2,445
Fresh Fruit and Vegetable Program	10.582	7720012-16	7720012-17	26,156
Fresh Fruit and Vegetable Program Total				28,601
Food Distribution	10.565	057502-10	057502-10	149,377
Total U.S. Department of Agriculture				2,914,011
Total Federal Financial Assistance				8,650,615

* Tested as major program

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Lincoln County School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lincoln County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Lincoln County School District.

NOTE B – FOOD DISTRIBUTION

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – DE MINIMIS COST RATE

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE E – SUBRECEPIENTS

There were no subrecipients during the fiscal year.

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
96.600	Head Start
84.287	21 st Century Learning Center

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2017

2016 -01: Finding

U.S. Department of Agriculture
10.555/10.553/10.559 Child Nutrition Cluster
Kentucky Department of Education

Criteria:

Costs must be supported by appropriate documentation. The documentation requirements of time and attendance for salaries and wages is described in 2 *CFR part 220/A21*.

Condition:

Documentation of time and attendance and/or periodic certifications was not completed for all employees charged to the Child Nutrition Cluster.

Cause:

Program administrators did not follow the payroll documentation requirements in 2 *CFR part 220/A21*.

Context:

A sample of payroll transactions related to the Child Nutrition Cluster was selected for compliance and internal control testing. It was determined that a portion of the programs administrative costs were for 50% of one individual's salary. However, there was no documentation of time and effort for this employee. 50% of the employee's salary was \$39,196 and this was charged to the Child Nutrition Cluster.

Effect:

The administrative costs were charged to the program without proper supporting documentation which resulted in noncompliance and questioned costs for the program.

Questioned Costs: \$39,196

Recommendation:

Employees paid from federal programs, including employees in administrative positions, should document their time and attendance specific to federal programs and/or complete periodic certifications for their time.

Management Response: Management has implemented procedures in Fiscal Year 2016-2017 to correct this matter.

Current Year Status:

All employees paid from federal programs are documenting their time and attendance specific to federal programs and/or completing periodic certifications for their time charged to federal programs.

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October 19, 2017

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Lincoln County School District
Stanford, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements, and have issued our report thereon dated October 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lincoln County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Lincoln County School District in a separate letter dated October 19, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 19, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Members of the Board of Education
Lincoln County School District
Stanford, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lincoln County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lincoln County School District's major federal programs for the year ended June 30, 2017. Lincoln County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lincoln County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lincoln County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Lincoln County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lincoln County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements. We issued our report thereon dated October 19, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 19, 2017

MANAGEMENT LETTER

Members of the Board of Education
Lincoln County School District
Stanford, Kentucky

In planning and performing our audit of the financial statements of Lincoln County School District for the year ended June 30, 2017, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

2016-1 Prior Year Recommendation:

During the course of the audit it was noted there were instances where there was no proof of receipt of goods for purchases by the maintenance department. We recommend that all purchases where goods are received that the person receiving the goods sign and date the invoice as proof that the goods were actually received.

Current Year Status:

No instances of lack of proof of receipt by the maintenance department were found.

2017-1: Current Year Recommendation:

During review of school activity funds at McKinney Elementary, one instance was noted where a school fundraiser was conducted. A deposit was made from the fundraiser but it did not contain two signatures and there was no fundraiser approval form for the fundraiser as required by Redbook.

Management Response:

We will ensure that all fundraisers are properly documented and approved on the fundraiser approval form and that all receipts have at least two signatures in accordance with Redbook policy.

2017-2: Current Year Recommendation:

At Lincoln County Middle School, a multiple receipt form was completed by the coach for an activity. The players, who are all above third grade, did not sign their name for the money they turned in. We recommend that students at or above third grade sign their name on the multiple receipt form in accordance with Redbook policy.

Management Response:

We will instruct all schools to ensure that students third grade and above are signing their own name on the multiple receipt forms.

2017-3: Current Year Recommendation:

During the audit, there was one instance found when an employee was reimbursed for expenses incurred. There was no prior approval of the expenses incurred. We recommend that employee expenses be approved prior to being incurred.

Management Response:

We will instruct employees to complete a purchase order and obtain approval prior to incurring expenses personally in order to be reimbursed.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Charles M. White, CPA
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October 19, 2017

Members of the Board of Education
Lincoln County School District
Stanford, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 11, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lincoln County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by Lincoln County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Lincoln County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Lincoln County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 42 and 43, or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, or on the schedules of contributions to the County Employees Retirement Plan and the Kentucky Teachers Retirement System on pages 46 and 47, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Lincoln County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants